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REVIEW OF THE ECONOMIC INTEGRATION EXPERIENCE OF ALADI, ASEAN, CACM AND ECOWAS

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I. INTRODUCTION

1. This report aims to review briefly the experiences of four economic cooperation and integration groupings of developing countries in terms of the main issues and problems confronted by them, and to establish the main lessons derived from these experiences. The four integration groupings reviewed are the Central American Common Market (CACM), the Latin American Integration Association (ALADI), the Association of South-East Asian Nations (ASEAN) and the Economic Community of West African States (ECOWAS). All four integration groupings have had over 10 years of economic integration experience.

2. The Central American Common Market was established by the General Treaty of Central American Economic Integration following its signature by Guatemala, El Salvador, Honduras and Nicaragua in 1960 and its entry into effect in 1961. A year later Costa Rica also acceded to the General Treaty. The CACM region has a total surface area of over 0.4 million square kilometers and a total population of 25 million, with a per capita income of $US 938 in 1987 (from a gross domestic product of $US 23 billion). The CACM, like most other Latin American integration groupings, has it roots in the general movement towards import substitution industrialization development strategy in the late 1950s. It was designed to overcome the problem of small domestic markets and help facilitate the industrialization process.

3. The Latin American Integration Association came into existence when the Montevideo Treaty constituting it was signed in 1980 and came into force in 1981. It has 11 member States, *viz*. Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela which have a combined total land area of 3 million square kilometers and a total population of 361 million inhabitants with a per capita income of $US 1,900 in 1987 (from a gross domestic product of $US 700 billion). ALADI was created to replace its predecessor, the Latin American Free Trade Association (LAFTA), which was established in 1960. The rebirth of LAFTA in the form of ALADI was considered necessary to overcome with new modalities what constituted a total blockage in LAFTA's trade liberalization process in the late 1970s. ALADI, unlike LAFTA, is an open arrangement without obligations as to time-limits, it offers greater flexibility in terms of the trade agreements that can be made within it, and it has formulas designed to preserve a reasonable balance in economic transactions.

4. The signing of the ASEAN Declaration by Indonesia, Malaysia, the Philippines, Singapore and Thailand in 1967 created the Association of South-East Asian Nations. Brunei Darussalam subsequently joined ASEAN in 1984. The ASEAN region has a total surface area of over 3 million square kilometers and a total population estimated at over 300 million inhabitants with a per capita income of $US 690 in 1987 (from a gross domestic product of over $US 200 billion). The creation of ASEAN was to a large extent founded on the need to find a viable solution for promoting peace and stability in the region, which was marked by internal armed conflicts within individual countries and intra-regional conflicts following the end of the Second World War. Economic, social and cultural cooperation is undertaken with a view to supportng ASEAN's main theme of regional stability.

5. The sixteen-member Economic Community of West African States, composed of Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo, was established in May 1975 by the Treaty of Lagos. The majority of ECOWAS membership, namely 12 countries, have least developed country status.[1] Several member countries also subscribe to two other smaller West African subregional integration schemes, namely the Mano River Union (Guinea, Liberia, Sierra Leone) and the West African Economic Community (Benin, Burkina Faso, Côte d'Ivoire, Mali, Mauritania, Niger, Senegal). The ECOWAS region covers a total land area of about 6 million square kilometers and has a population of over 180 million with a per capita income of $US 339 in 1987 (from a gross domestic product of over $US 61 billion). The creation of ECOWAS was considered a basic prerequisite for development in the region, given its division into many small and mostly antagonistic States with correspondingly small markets, total production and income.

6. The report has six sections. Section I discusses the various forms and effects of economic integration per se, contrasting these with the developing countries' view of economic integration. Sections II to V review the respective economic integration experiences of CACM, ALADI, ASEAN and ECOWAS. Finally, in section VI, the conclusions and main lessons drawn from the review are discussed.

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1 These are Benin, Burkina Faso, Cape Verde, Gambia, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Sierra Leone and Togo.

II. DEFINITION, STAGES AND EFFECTS OF ECONOMIC INTEGRATION

7. In order to understand the objectives and the process of integration in the four groupings under review, it is useful to discuss firstly the various forms, stages and effects of economic integration. Economic integration can be defined variously depending on the different forms, approaches and levels on the basis of which it takes place. The various forms include: the free flow and exchange of goods, services and productive factors; the strengthening of collective bargaining power against the rest of the world; the co-ordination, harmonization and unification of economic policies (commercial, fiscal, monetary); or a mixture of these. Regarding approaches, economic integration can take place through integration by projects, through integration of national markets, or through different stages of integrated development. The levels at which economic integration takes place also vary mainly in geographical terms pertaining to subregional, regional and interregional arrangements.

8. In general, countries pursuing economic integration focus on the the creation of preferential regional trading arrangements or common markets. This approach, in theory, encompasses various stages which are outlined in the table below.

Table 1

Economic Integration Stages and Main Features

Stage of integration	Elimination of restrictions on trade	Adoption of common external tariff	Elimination of restrictions on factor mobility	Harmonization of economic policies
Preferential trade area	Yes [a]	No	No	No
Free trade area	Yes	No	No	No
Customs union	Yes	Yes	No	No
Common market	Yes	Yes	Yes	No
Economic union	Yes	Yes	Yes	Yes

Source: Table adapted from F.R. Root, ***International Trade & Investment, 5th Edition***, (Ohio, South-Western Publishing Co., 1984), p. 341.

a Reduction, rather than the elimination, of trade barriers on some products only which are typically, but not exclusively, industrial products.

9. In a **preferential trading area** there is only partial reduction of trade restrictions on intra-trade flows in, normally but not exclusively, industrial products, as in ASEAN. A **free trade area** is created when member States dismantle completely all tariff and non-tariff barriers to mutual trade, nonetheless, they are free to retain restrictions on their trade with the rest of the world. In general, in order to qualify for free trade treatment, imports have to satisfy "rules of origin" requirements such as being mainly produced in member countries. A **customs union** is characterized by the complete elimination of restrictions on mutual trade and the imposition of a common external tariff against trade with the rest of the world, as in CACM. A customs union is transformed into a **common market** when all restrictions against factor (labour, capital and enterprise) mobility are removed. Hence, goods and factors flow freely across national boundaries of member countries. The final stage is an **economic union** which is achieved when, in addition to common market arrangements, member countries also harmonize and unify their economic policies. These various requirements of regional economic integration have two important implications which must be recognized and accepted by participants of regional integration schemes. Firstly, the process of regional trade liberalization will tend to favour member countries' mutual trade within the integrated area and discourage trade with the outside world. It is thus by nature discriminatory, at least in the short-term. Secondly, different degrees of economic integration imply different degrees of political integration. Participation in a regional integration scheme requires member countries to give up a certain degree of their economic sovereignity or the right to exercise certain economic policies. This

devolution of national economic powers to the supranational organization ranges from purely commercial policies as in the case of preferential trading arrangements to a whole range of economic policies as in the case of common markets and economic unions.

10. The formation of an integrated area in which trade is liberalized generates trade creation and trade diversion effects which result from changes in the domestic consumption of imports in participating countries in response to changes in import prices after the reduction or elimination of tariff duties. *Trade creation* occurs when member countries shift from the consumption of high-cost imports produced inside the integrated area to low-cost imports also produced inside the integrated area. Trade with third countries in this case is not affected. *Trade diversion* occurs when low-cost imports from outside the integrated area are substituted with high-cost imports from inside the integrated area. In this case the member countries now trade in goods which they formerly imported from efficient third country producers. On balance, global economic welfare is improved if trade creation exceeds trade diversion so that trade liberalization leads to efficient patterns of production and trade inside the integrated area. The extent to which trade creation takes place within an integrated area depends on the prospective member countries' pre-integration production structures (complementary or competitive), trade relations (weak or strong) and tariff structures (low or high).

11. The conception of subregional, regional and interregional economic integration in developing countries, however, goes beyond the classical view in postulating economic integration as an instrument for facilitating overall socio-economic development. The main *raison d' être* of economic integration for developing countries lies in its potential for pooling together, harnessing and making more effective use of their national resources and markets with a view to facilitating economic growth, industrialization and technological progress. It is envisaged that the expansion of the domestic market through regional economic integration stimulates the development of local industries, promotes diversification of production and exports, and allows economies of scale to be realized in many industries. The opportunities for trade created by the enlarged domestic market enhances competition and leads to more investment in industry which generates employment and income. Investment in infrastructure also rises as production and trade expand as a result of the enlarged market. Member countries of an integration grouping could also strengthen their bargaining positions in international negotiations by adopting common stands on issues of common interest. In addition to facilitating economic development, equally important emphasis is placed on the role economic integration, coupled with social and cultural cooperation, can play in enhancing better awareness of regional identity as well as promoting and maintaining regional political stability.

12. Accordingly, in practice, economic integration endeavours of developing countries normally evolve according to the importance placed by policy-makers of each integration grouping on the various characteristics of the different stages of economic integration. ECOWAS, for instance, started to remove internal restrictions on the movement of labour without first liberalizing mutual trade (in industrial products) because the former element was considered a prerequiste for supporting effective economic integration of West African economies. CACM adopted a common external tariff in 1960 although the member States had not yet established a totally free trading zone. ASEAN has declared that in terms of trade liberalization, it is not its objective to progressively move towards establishing a common market. In ALADI the regional economic integration process, especially trade liberalization, is being constructured on the basis of bilateral or multilateral economic integration efforts.

III. THE CACM EXPERIENCE

13. The major objective of CACM was the establishment of a common market which will contribute towards accelerating the economic growth of member countries and also facilitate the diversification of their production bases towards manufactures. The first stage of integration involved the formation of a free trade area. This was to be achieved, firstly, through the immediate elimination of trade restrictions on subregional trade in industrial products when the General Treaty became effective (1961); and, secondly, through the removal of trade restrictions on the remaining (non-industrial) products progressively over a five year period. The second stage of integration was the elevation of the free trade area into a customs union when member countries adopted a common external tariff. The third and final stage of integration was the formation of a common market within five years of the entry into force of the General Treaty.

14. Programmes for joint cooperation on industrial promotion and money and financial integration were also elaborated to assure parallel development of regional trading relations and trade supportive structures. In this regard, a Central American Clearing House (CACH) was established in 1961 to support the expansion of intra-regional trade by promoting the use of regional currencies in settling intra-regional trade transactions. By channelling their mutual trade transactions through the CACH, the member countries would reduce the

need to hold and use sizable reserves of foreign exchange for such transactions and also minimize the financial costs incurred from intra-regional monetary transfers.

15. The common historical background of the countries of the Central American Isthmus, their contiguity to one another and their language affinity provided a favourable setting within which the CACM integration process thrived during its first decade of existence. A customs union was practically completed by 1966 when over 94 per cent of the total items in the Standard Central American Tariff Nomenclature were subjected to free trade and to a common external tariff.[2] The common external tariff was set in force in 1960 when CACM member countries endorsed the Central American Agreement on the Equalization of Import Charges. In addition, restrictions on capital movement within the region were removed so that a common market was partially established. These integration arrangements stimulated spectacular results during the 1960s and the 1970s. CACM's intra-trade, particularly in industrial products, expanded rapidly from about 7 per cent of total exports in 1960 to about 26 per cent in 1970 and remained around this level until 1980. In addition, by the late 1970s, 100 per cent of intra-regional trade flows was channelled through the CACH.[3] The rapid growth of intra-regional trade contributed to the overall expansion of total exports which nearly tripled during the 1960s and more than quadrupled during the 1970s (see table 2). Regional industrial production also increased as a result of the expanded regional market and the free trade arrangements, which affected mainly industrial products. The ratio of manufacturing output to gross domestic product of CACM increased from about 12 per cent in 1960 to 16 per cent in 1970.[4] The value-added in manufacturing in all CACM member countries rose during this period.

Table 2

CACM Intra-Trade Performance

	Value of total exports *(millions of US dollars)*		
Year	*Intra-trade*	*Total exports*	*Share of intra-trade*
1960	33	440	7.5
1970	299	1 120	26.8
1980	1 141	4 880	22.6
1986	620	3 510	17.7
1988	495	3 440	14.4

Source: UNCTAD, ***Handbook of International Trade and Development Statistics, 1989*** (United Nations publication, Sales No. E/F.90.II.D.1).

16. CACM's early success ironically generated forces that have subsequently disrupted its economic integration process. A major disruptive factor was the asymmetrical distribution of the benefits of economic integration (trade and industrial expansion) in favour of the more advanced member States. The relatively less advanced member States (Honduras and Nicaragua), for instance, accumulated huge trade deficits which were overwhelmingly intra-regional. The problem of intra-regional indebtedness in particular undermined the stable relations among CACM member countries and led Honduras, in 1971, to suspend its participation in CACM and to impose discriminatory trade measures on regional imports. Other member States then retaliated to the Honduran actions by also imposing trade restrictions, and this led to a break down in the CACM free trade area.

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2 N.B. Mairal, ***The Latin American Integration Process in 1985/1986/1987*** (Buenos Aires, Institute for Latin American Integration and the Inter-American Development Bank, 1989), p. 137.

3 N.B. Mairal, ***op.cit.***, p.159.

4 ECLAC, ***Statistical Yearbook for Latin America and the Caribbean*** , various issues.

17. CACM survived the disruptions to its integration process -- albeit in a much weakened form. The maintenance of intra-regional trade relations from then on depended to a large extent on external economic conditions. In the 1970s, favourable external economic conditions made it easier for CACM member countries to maintain mutual commercial relationships. The value of CACM intra-trade actually grew by 18 per cent annually to about $US1,141 million in 1980 though its share of CACM's total exports declined to about 22 per cent.

18. In the 1980s, however, the deterioration in external economic conditions adversely affected the intra- and extra-regional trade of CACM. Intra-regional trade was in particular weakened by the frequent use of foreign exchange controls in member countries to resolve their external balance-of-payments problems resulting from the economic crisis. Member countries also implemented cuts in their imports mainly of finished industrial products, which further undermined intra-regional trade in these products. Consequently, the value of intra-regional trade declined by over 50 per cent between 1980 and 1988. The share of CACM's intra-trade in its total exports declined persistently over this period to 14 per cent in 1988. This steady decline in intra-regional trade undoubtably had negative repercussions on the output of regional industries which had grown to depend on the regional market.

19. The CACH also encountered serious difficulties resulting mainly from the accumulation of intra-regional debts by some member countries which where experiencing persistent intra-regional trade deficits. The accumulation of intra-regional debts became so unsustainable ($US 750 million in total) that it has led some member countries having permanent creditor positions to suspend their participation in the CACH. As a result the volume of transactions channelled through the CACH declined to a mere 5.6 per cent of intra-regional imports in 1987,[5] paralysing the multilateral payments system. The indebtedness as between Central American countries themselves has become one of the major obstacle to the revival of their integration process.

20. In addition to economic problems, the political and social conflicts which in some countries involved armed confrontations has already destroyed a large proportion of the region's productive capacity and has impeded the revival of the Central American integration process. The Central American integration process was thus seriously jeopardized by internal and external factors which have practically brought about its collapse and have thwarted the efforts to revive it.

21. CACM, since the early 1980s, has attempted to revitalize its integration process. Several attempts have been made to remove the distortions (restrictions) in intra-regional trade and to bring about a normalization of commercial relations. CACM member States have agreed to stop the re-introduction of trade restrictions to intra-zonal trade and to begin to remove these barriers. A new common external tariff has been set up and member States have begun to resolve bilaterally the problems of unsettled arrears. In 1986, a temporary alternative regional system of payments based on the Central American Import Rights (DICAs) was adopted. The use of DICAs was aimed at facilitating a revival of CACM intra-trade and, in addition, avoiding the persistent accumulation of obligations among the central banks resulting from the existing clearing mechanism (CACH).[6] CACM member States are also endeavouring to restore peace in Central America and several agreements have already been signed in this regard. These measures, however, have not brought about an improvement in intra-CACM trade, which continued to decline systematically up to 1988.

22. Accordingly, in recent years, both at the presidential level and at meetings of ministers and of private sectors, new efforts have been made to reactivate the Central American integration process. The following are some of those new initiatives:

(a) The creation of a Central American Parliament;

(b) The approval, in early 1988, of a Plan of Immediate Action whose prime objective is the re-establishment of a common market in Central America;

(c) The signing of various cooperation and trade agreements between CACM countries and ALADI countries such as Mexico, Colombia, Argentina and Venezuela;

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5 Mairal, ***op.cit.***, p.159.

6 For more details on these recent developments in CACM see UNCTAD, ***Review of Developments in the Area of Trade and Monetary and Financial Co-operation*** (TD/B/C.7/92, 1989), and UNCTAD, ***Major New Developments in the Economic Co-operation and Integration Groupings of Developing Countries (1985-1987)***, (TD/B/C.7/87, 1988).

(d) The signing of bilateral agreements between CACM countries themselves which provide for special trading arrangements such as barter and countertrade in order to preserve mutual CACM trade as far as possible;

(e) The establishment of the Central American Fund for Economic and Social Development on a temporary basis, by the Central American Bank for Economic Integration, to attract contributions from third countries. Argentina, Mexico and Venezuela are already participating in the Fund; and

(f) The signing of several economic agreements between CACM and the European Economic Community during the "San José" VI Conference in Dublin in April 1990 which are aimed at removing the main financial constraints on intra-CACM trade. They include:

(i) A financing agreement covering the first installment of a three-year programme to increase intra-CACM trade (ECU 120 million). The agreement is linked with a plan to liberalize regional trade, also within three years;

(ii) An agreement in principle to set up a Honduras-Nicaragua special fund of ECU 30 million which will be used to strengthen the export capacity of the two relatively less developed member States of CACM; and

(iii) An undertaking by EEC to ensure that CACM exports to the single European Community market after 1992 are not unfavourably affected, especially with respect to banana exports.

IV. THE ALADI EXPERIENCE

23. ALADI aims to create a Latin American Common Market to enhanc the economic integration of Latin American countries and to promote harmonious and balanced socio-economic development in the region. In the short- and medium-term, however, the main priority has been the formation of an area of economic preferences. This is promoted through the adoption of flexible trading arrangements which consist of partial-scope (including bilateral) commercial agreements (which could later be extended to other ALADI countries) and a regional tariff preference mechanism which was adopted in 1984 and is open to all countries in the region. The partial scope and regional agreements cover various sectors, including trade, trade promotion and economic complementation. In the design and implementation of these cooperation activities, the less advanced countries of ALADI, *viz*. Bolivia, Ecuador and Paraguay, are generally accorded preferential treatment to enhance their participation in regional economic cooperation and integration.

24. A new payment and credit arrangement, the Reciprocal Payments and Credit Agreement, was established in 1982 to replace a similar arrangement under LAFTA, albeit maintaining the same objective which was to reduce the use of foreign exchange in settling intra-regional trade transactions. The operations of the new clearing arrangement were supported by the Santo Domingo Agreement, which was a credit mechanism set up by ALADI member States and the Dominican Republic to provide short-term balance-of-payments support to member countries facing temporary problems of liquidity.

25. The private sector is directly involved in the trade liberalization process. Under the auspicies of ALADI, the business community is organized into various sectoral bodies that meet to negotiate and decide on the product items in their respective sectors that should be considered for preferential treatment. Most industrial sectors are covered under such arrangements.

26. ALADI member States, however, were not able to improve significantly upon the integration institutions and mechanisms which they inherited from LAFTA, nor were they able to devote sufficient attention towards removing the political and economic impediments which had plagued LAFTA. The eruption of the debt and balance-of-payments crisis in the early 1980s, which severely affected the economies of ALADI countries, diverted their preoccupation away from regional integration issues to autonomous adjustment measures for alleviating the resulting marco-economic disruptions and corollary social upheavals. The progress towards enhancing ALADI intra-trade, for instance, slowed down as most ALADI member States, including Argentina, Brazil and Chile (which together dominate ALADI intra-trade), reduced their level of participation in intra-regional trade. As a result ALADI intra-trade which had expanded to more than $US 11 billion in 1981, declined to around $US 6 billion in 1985. The share of ALADI's intra-trade in the group's total exports also declined from 12.6 per cent to 9.6 per cent during the same period (see table 3).

Table 3

ALADI Intra-Trade Performance

	Value of total exports (*millions of US dollar*)		
Year	*Intra-trade*	*Total exports*	*Share of intra-trade*
1960	546	7 280	7.7
1970	1 290	12 730	10.2
1981	11 180	88 140	12.6
1985	6 779	80 990	9.6
1988	9 769	91 420	10.7

Source: UNCTAD, ***Handbook of International Trade and Development Statistics, 1989*** (United Nations publication, Sales No. E.F.90.II.D.1).

27. The ALADI Payments and Reciprocal Credit System also experienced serious difficulties due to the drastic reduction in inflows of financial resources. Member States exhausted their credit ceilings and some of them accumulated arrears in the system. This situation prompted member States to restort to bilateral deals. The serious liquidity problems experienced by member States also led to the suspension of the Santo Domingo Agreement.

28. The continuing deterioration in the economies of Latin American countries into the mid-1980s despite the adoption of various national adjustment measures impressed upon the Latin American countries the need to, *inter alia*, reconsider their integration process as an important element of the general strategy for revival of growth. Reflecting this new perception, Latin American countries have, since 1986, seriously attempted to revitalize their integration process.[7] The number of joint (bilateral) commercial agreements established have been increased to a total of 104 which include: 40 past LAFTA agreements renegotiated by ALADI; 27 new agreements; 17 new economic complementation agreements (14 in the trade sector, 1 in the agricultural sector, 1 in the area of tourism and 1 in the area of culture, education and science); and 20 other agreements signed with non-ALADI member countries of the same region.

29. A new intra-regional trade facilitating measure was launched under the title Regional Round of Negotiations. The core aspects of this programme which are being developed include the increment of regional tariff preferences and the adoption of a programme and procedures to eliminate non-tariff barriers and to correct trade imbalances. In the implementation of these elements, special conditions are being applied to the relatively less advanced ALADI countries. In connection with this programme, in June 1990 ALADI member States agreed to augment the regional tariff preference (PAR) from an average of 10 to 20 per cent over the following two years on products which benefit from the PAR. The actual tariff preferences will range from 8 to 40 per cent depending directly on the relative development level of member States. In response to some of these initiatives, ALADI intra-trade has been growing after 1985 to account for about 10.7 per cent of total ALADI exports in 1988.

30. A number of initiatives have also been launched to revive and strengthen the regional payments system. To deal with the problem of accumulated arrears, member States instituted a system of bilateral settlements which have been supported by separate formal agreements between pairs of countries that provide credit related to intra-regional trade. The regional payments system has also acquired a fully computerized information system which facilitates the transmission to participating banks, through teleprocessing, of the range of information relating to payments operations.

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7 See Mairal ***op. cit.*** for a detailed discussion of the developments in ALADI between 1985 and 1987.

31. The consolidation of economic agreements among a number of important ALADI member States is another development that will lend support to the revival and consolidation of their integration process. In late 1989 Argentina, Mexico and Venezuela agreed to reduce substantially the trade barriers to their mutual trade by 1992. The Argentine-Brazilian economic integration process was also strengthened when the presidents of the two countries agreed, in July 1990, to establish a common market between their countries. This process was further upgraded in March 1991 with the signing of a treaty between Argentina, Brazil and Uruguay which aims at creating between them by December 1994 a "common market of the southern cone" (MERCOSUR).

V. THE ASEAN EXPERIENCE

32. The aims and purposes of ASEAN are both economic and non-economic. ASEAN is mandated to promote regional socio-economic and cultural development and maintain peace and political stability in the region. Regarding economic cooperation, the First ASEAN Summit in 1976 adopted the Declaration of ASEAN Concord which was the first comprehensive programme for regional economic cooperation in the areas of trade, finance and banking, and industry.[8]

33. Intra-ASEAN trade liberalization and expansion are the main priorities in the area of trade. To this and, the First ASEAN Summit recommended the establishment of a regional preferential trading scheme as the basic framework for expanding intra-ASEAN trade. One year later (1977), ASEAN countries took a more definitive step towards this objective by signing the Agreement on ASEAN Preferential Trading Arrangements (PTA). The ASEAN PTA "... provides certain specific instruments of preferential trading such as the extention of tariff preferences, purchase finance support at preferential interest rates, long-term quantity contracts, preference in procument by government entities, and the liberalization of non-tariff measures on a preferential basis. Of these, the most widely used is the extension of tariff preferences."[9] Other priorities in the trade area include the consolidation of an ASEAN group position on international economic and trade issues, and the expansion of tourism in the region. In the latter sphere, ASEAN launched the "Visit ASEAN Year 1992" with a view to boosting tourism; individual ASEAN countries have already been making major preparations for the realization of the project.

34. In the area of finance and banking, ASEAN countries are pursuing cooperation in customs, tax, insurance and financing matters. One major activity was the establishment of the ASEAN Swap Arrangement in 1977. This is a credit facility which provides short-term financial support to member countries facing temporary liquidity problems arising from both intra- and extra-regional trade. The member countries contribute $US 40 million annually to this facility and can borrow up to $US 80 million. Another major activity was the launching of the ASEAN Reinsurance Corporation in December 1989 which aims to promote intra-ASEAN trade in reinsurance.

35. Regional industrial cooperation activities are developed from three basic industrial agreements, namely: the Basic Agreement on ASEAN Industrial Projects (AIPs) signed in 1980; the Basic Agreement on ASEAN Industrial Complementation (AIC) signed in 1981; and the Basic Agreement on ASEAN Industrial Joint Ventures (AIJVs) signed in 1983. The AIPs are large-scale ($US 300 - 400 million) industrial projects established in order to meet local regional demand and financed largely by domestic capital. The output of AIP industries is given preferential access under the ASEAN PTA. The AIC arrangement is designed to promote the development of complementary manufacturing industries in ASEAN countries. Countries participating in AIC projects produce complementary products in specific industrial sectors for preferential exchange among themselves. The AIJV scheme aims to promote the establishment of regionally based industrial joint ventures in which the private sector is encouraged to participate.

36. The value of ASEAN intra-trade and its share in total ASEAN exports, since the launching of the ASEAN PTA, increased from $US 3,619 million and 13.9 per cent respectively in 1976 to $US 12,651 million and 18.9 per cent respectively in 1981. Between 1981 and 1986, however, the value and share of ASEAN intra-trade stagnated at around $US 11,918 and 16.7 per cent respectively (see table 4). The stagnation in ASEAN intra-trade occurred despite the expansion of products covered under the ASEAN PTA from 71 items in 1976 to almost 13,000 by 1987. It would appear intra-ASEAN trade was affected to a large extent by changes in the prices of commodities which account for the bulk of intra-ASEAN trade (such as petroleum). The expansion in ASEAN intra-trade in the 1970s occurred at a time when the prices for commodity prices

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8 For an excellent discussion on the origin, activities, achievement and organizational structure of ASEAN, see ASEAN Secretariat, ***ASEAN: The First 20 Years***, (Singapore, 1987).

9 ASEAN Secretariat, ***ibid.***, p. 117.

(such as petroleum) had increased, and ASEAN intra-trade declined in the crisis period of the 1980s when commodity prices dropped.

37. The apparently limited impact of the ASEAN PTA is attributable to a number of factors basically related to the design of the PTA. The product items selected for the PTA were defined at extremely detailed levels (at the Brussels Tariff Nomenclature seven-digit level) and, in addition, such items were more often of low trade content. The inclusion of products of low trade content was facilitated by the initial adoption of a product-by-product approach towards granting tariff concessions. This approach allowed ASEAN member countries to volunteer products for concessions which would not compromise local export-oriented industries.[10] ASEAN member countries also kept long lists of products that are excluded from the ASEAN PTA. The liberal way in which member countries could include products on their exclusion lists and the apparent absence of a limit on the size (quantity and value) of national lists facilitated the maintenance of such long lists. Finally, the tariff concessions agreed to in the ASEAN PTA (around 20 to 25 per cent tariff cuts) have not been significant enough to stimulate new trade, as the product items covered by the ASEAN PTA were not particularly price elastic.

38. The ASEAN Swap Arrangement, unlike the credit and payment arrangements of developing countries, was largely unaffected by the economic crisis of the 1980s. The Swap Arrangement continued to provide credits of about $US 45-65 million annually between 1985 and 1987.[11] The Swap Arrangement was able to continue operating largely because most ASEAN member countries, with the exception of the Philippines, did not experience acute debt and balance-of-payment problems and they also continued to maintain relatively high and stable growth rates during the 1980s.

39. ASEAN industrial cooperation has generated some concrete regional projects. The AIP scheme promoted the establishment of two urea producing plants in Indonesia and Malaysia respectively. These two plants are in operation and have exported their output to other ASEAN countries and to urea markets outside the ASEAN region. Under the AIC scheme, one package of products involving automotive parts has been approved. The AIJV scheme had a slow start due to problems in approving AIJV products arising from: a complicated process of approval and acceptance which prolonged decision-making; stringent local ownership rules in a region where the business community is dominated by subsidiaries of transnational corporations; and strong national government influences in the selection of industrial projects.

40. During the Third ASEAN Summit of Heads of State in December 1987, ASEAN policy makers examined the ASEAN PTA and the regional industrial schemes and they concluded that performance of these economic cooperation schemes should be improved. In this connection, the Third ASEAN Summit adopted some new initiatives which are to be implemented between 1988 and 1992.[12] Regarding the ASEAN PTA, the package of new initiatives stipulated that: (a) the present national exclusion lists be substantially reduced; (b) new items from the exclusion lists be phased into the PTA with a minimum margin of preference (MOP) of 25 per cent; (c) the MOP for items already covered by the PTA be deepened to 50 per cent; (d) the ASEAN content requirement in the rules of origins be relaxed from 50 to 35 per cent on a case-by-case basis;[13] and (e) there is to be an immediate "standstill" on non-tariff barriers and the launching of negotiations for the reduction of non-tariff barriers within ASEAN on a preferential basis. The progress of implementation will be reviewed annually by ASEAN Economic Ministers during the five year period, after which ASEAN will again examine the possibilities for further improvement.

41. Regarding industrial cooperation, the Third ASEAN Summit incorporated a supplement agreement to the Basic AIJVs Agreement with a view to improving it. The Revised Basic Agreement on AIJVs stipulated that: (a) a pre-approved list of AIJVs be established to facilitate the submission and acceptance of AIJVs; (b) the non-ASEAN equity ceiling be liberalized from 49 to 60 per cent (so foreign investors can acutally be the majority equity holder) for AIJV which are approved before 31 December 1990; (c) in any approved AIJV the participating ASEAN country must have as a minimum 5 per cent equity; and that (d) the privileges and incentives under the AIJV scheme are to be expanded.

42. ASEAN has made steady progress in implementing some of the policy decisions of its Third Summit. In 1988, ASEAN removed 1,679 items from the national exclusion lists of member States and added them to the ASEAN PTA list with a MOP of 25 per cent. This has increased the total number of product items under

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10 In 1984 ASEAN adopted an across-the-board method in determining tariff concessions.

11 See UNCTAD, 1989, *loc.cit.*, table 4, p.18.

12 Indonesia and the Philippines were allowed seven years (1988-1994) due to differences in their level of development and in their tariff regimes.

13 The corresponding reductions for Indonesia will be from 60 to 42 per cent.

Table 4

ASEAN Intra-Trade Performance

	Value of total exports (millions of US dollar)		
Year	*Intra-trade*	*Total exports*	*Share of intra-trade*
1976	3 619	n.a [a]	13.9
1980	11 918	73 080	17.8
1986	11 096	66 400	16.7
1988	18 277	104 450	17.5

Source: UNCTAD, ***Handbook of International Trade and Development Statistics, 1989*** (United Nations publication, Sales No. E/F.90.II.D.1).

a Data not available.

the ASEAN PTA to 14,462. In addition, the MOP on 3,261 items on the existing ASEAN PTA list has been deepened. The completion of the 1989 and 1990 ASEAN PTA improvement programmes will further augment the number of product items and their MOP.

43. Most ASEAN countries have also compiled and exchanged their lists of non-tariff barriers. Those lists form the basis from which negotiations are to be launched on the "standstill and rollback" of non-tariff barriers on intra-ASEAN trade. So far about 70 requests for rollback of non-tariff barriers have filed and preliminary negotiations on some of the request are taking place. Consequent to these trade liberalization measures, intra-ASEAN trade is recovering; between 1986 and 1988, the value of intra-ASEAN trade and its share in total ASEAN exports increased to $US 18,277 million and 17.5 per cent respectively (see table 4).

44. The efforts of ASEAN to establish a pre-approved list of AIJVs have been intensified. ASEAN has also launched new industrial cooperation activities with the approval of five AIC schemes covering the production of motor vehicles by the Mitsubishi Motor Corporation.

VI. THE ECOWAS EXPERIENCE

45. The main objective of ECOWAS is to support and enhance the socio-economic development of its member States and their citizens' welfare by promoting and coordinating cooperation among its member States in the development of critical economic sectors covering infrastructure bases, production systems and integration of national markets. The integration process of ECOWAS is to be evolved through successive stages towards a a fully-fledged economic community. The first stage would be the formation of a free trade area, and for this purpose a comprehensive trade liberalization programme was designed. Mutual ECOWAS trade in unprocessed products (agricultural goods and handicrafts) was to be totally liberalized when the trade liberalization programme entered into force. With respect to manufactured products, trade barriers were to be gradually eliminated over a period of 4 to 10 years following the launching of the trade liberalization programme. During this period also the member States were not supposed to impose new duties or increase existing ones. A customs union would then be established in the next five years when a common external tariff and a common customs nomenclature are adopted. The customs union would be gradually evolved into an economic union.

46. Progress towards the economic integration of the West African market, however, has been rather slow. The ECOWAS trade liberalization programme, the main building block for the construction of a customs union, was revised and postponed several times before it was finally launched on 1 January 1990.

47. The long delay in the launching of the ECOWAS trade liberalization programme was due to a number of internal factors which have undermined member States' support for the programme. One disincentive has been the tendency of West African countries to resort to the use of non-tariff barriers (mainly import licenses and exchange controls) in regulating imports. Several countries have also attempted to raise government tax revenue by raising import duties in contravention of the "standstill" agreement. Such tendencies towards more trade restrictions -- rather than trade liberalization -- increased in the 1980s as the international liquidity crisis of that period affected many West African countries.

48. The local ownership aspect of the rules of origin in ECOWAS was another disincentive. The ECOWAS Treaty stipulates that products which enjoy preferential treatment should be produced in a community plant that is substantially locally owned (51 per cent of equity). The Mano River Union also requires local equity ownership of 51 per cent. However, the countries members of the West African Economic Community do not have such stringent rules of origin. The divergent positions of member countries on this requirement was another factor that delayed the launching of the trade liberalization programme.[14] In any case, the restrictive nature of the local content requirement of the rules of origin excluded the products of many domestic industries which are financed substantially by foreign capital. Such industries are common given that the domestic savings level in most West African countries is generally low.

49. The treaty establishing ECOWAS also provided for the establishment of a fiscal compensatory mechanism to cover possible tariff revenue losses incurred by member countries when liberalizing their trade. This was an extremely important provision given the importance of tariff revenue to ECOWAS countries. However, the procedure for the implementation of the compensatory mechanism was so complex that it has rendered their application extremely difficult and confusing. For instance, the fiscal compensatory scheme varies according to the level of development of each member country and the product category (priority or non-priority) and applies only to industrial products that meet the rules of origin requirements. In addition, the ECOWAS compensation scheme has to make allowance for the preferential trading arrangements of the Mano River Union and the West African Economic Community. It is expected that the establishment of the ECOWAS computer center will help to facilitate the implementation of some of these tasks.

50. Weaknesses in regional production and financial and physical linkages have also limited the prospects for expanding trading relations and cooperation among ECOWAS member countries. These weaknesses in production and physical linkages existed before the creation of ECOWAS and have continued to persist mainly because ECOWAS policy makers placed a preponderant emphasis on market integration and either discounted or overlooked the development of these necessary sectors. The building of productive capacity and economic infrastructure are primary concerns in especially the least developed country member States of ECOWAS.

51. In the area of financial cooperation, the West African Clearing House (WACH) has experienced severe difficulties during the recent past.[15] Its operations are constrained by the small volume of cleared transactions (even in relation to intra-trade), the asymmetry in subregional trade which fostered permanent debtor-creditor patterns, and limitations on the type of trade cleared. The existence of stringent exchange and trade regulations in many of the member countries of WACH and the multiplicity of non-convertible regional currencies (of differing strengths) have further compounded the difficulties faced by WACH. Consequently, the WACH has not been able reduce the use of foreign convertible currencies in settling intra-ECOWAS trade transactions. For instance in 1986 and 1987, over 85 per cent of the total transactions channelled through the WACH were settled in foreign currency. Moreover, the volume of transaction cleared within WACH has been declining during the 1980s.

52. Similarities in production structures and the lack of a strong industrial sector in ECOWAS countries have limited intra-ECOWAS trade expansion. A few commodities, for instance, account for the bulk of the aggregate export receipts of most ECOWAS member countries. Any significant rise in ECOWAS intra-trade in the long-term therefore requires a diversification of production towards non-traditional exports such as commodity

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14 See W. Zehender, "Regional Co-operation in Perspective - Some Experiences in Sub-Saharan Africa," ***The Courier***, No.112 (November/December, 1988).

15 The WACH was established to support ECOWAS intra-trade by clearing current transactions without using hard currencies. The use of local currencies is positively correlated with the volume of cleared transactions; the greater the proportion of current transactions channelled through WACH, the greater the use of local currencies in settling transactions. This would reduce foreign transaction costs, allow countries to optimize the use of their scarce foreign exchange and alleviates the foreign exchange constraint on the expansion of intra-trade. For details on the purpose and ***modus operandi*** of WACH see H. Qaqaya, ***Currency convertibility and the effective functioning of Clearing and Credit Arrangements***, paper presented to the seminar on "Experience with Payments and Credit Systems," Sierra Leone (11-12 May, 1987).

processing, semi-manufactures and manufactures. This necessitates the development of industrial capacity in West African countries.

53. ECOWAS countries have also had difficulties in adopting the necessary policies and measures to develop subregional industrial capacity. Progress in this regard has been limited to the agreement on the rules of origin which, as stated earlier, was contested by some member States. The adoption of common rules on foreign direct investment for example on investment incentives, are still being developed. Moreover, the adoption of a regional industrial programming policy that, for instance, would cover the establishment of multinational joint ventures is yet to be developed and defined.[16] Not surprisingly, the indigenous enterprises and their organizations (trading companies and chambers of commerce) in the subregion have not been participating in the economic cooperation ventures. The resolution of these policy guideline problems is firstly needed before the operational aspects of enhancing the industrial capacities of ECOWAS countries could be pursued.

54. The West African economic integration process has also been hampered by the existence of a large number of subregional institutions for cooperation which created possibilities for duplication and overlapping of functions and activities. Several ECOWAS member countries subscribe to a minimum of four other economic cooperation and integration groupings in Africa. Hence their financial contributions to the various institutions represents a considerable burden on their national budgets. Not surprisingly, many member States have not paid up their financial contributions to the ECOWAS secretariat and some have accumulated arrears dating back to 1980. In addition, this situation renders the coordination of policies, programmes and projects at the national and regional levels very difficult and confusing.

Table 5

ECOWAS Intra-Trade Performance

Value of total exports - *(millions of US dollar)*

Year	*Intra-trade*	*Total exports*	*Share of intra-trade*
1960	17	1 350	1.2
1970	61	2 960	2.1
1980	1 056	32 450	3.9
1985	481	19 440	2.5
1988	684	14 100	4.9

Source: UNCTAD, ***Handbook of International Trade and Development Statistics, 1989***. (United Nations publication, Sales No. E/F.90.II.D.1).

55. The international economic crisis and the marco-economic imbalances affecting all ECOWAS member States during the 1980s and the consequent structural adjustment measures applied have also undermined regional economic cooperation in West Africa. The adoption and implementation of adjustment programmes and projects, in particular, were based on national priorities which: firstly, allowed little or no consideration for subregional integration objectives; and secondly, did not allow for coordination of policies and projects at the subregional level. These influences diverted the member States' attention away from long-term development and economic integration goals to a concentration on mostly short-term crisis management. This explains to a large extent the lack of interest in member States for developing, launching and strengthening the ECOWAS integration instruments and process in the 1980s.

[16] P. Robson, "Policy Issues in West African Integration," ***Intereconomics: Review of International Trade and Development***, Vol. 6 (November/December, 1983) and W. Zehender, ***loc. cit.*** have discussed in a succint manner the problems in ECOWAS industrial cooperation.

56. In the light of all the constraints facing ECOWAS, the very modest level of intra-ECOWAS trade is normal. In fact between 1980, following the establishment of ECOWAS, and 1985 the intra-trade of ECOWAS declined strongly (see table 5). In the period since 1985, the intra-trade of ECOWAS has been growing. Nevertheless, its share in total ECOWAS exports remains marginal. However, it has to be noted that there is a large degree of unrecorded border trade among the West African countries.

57. These difficulties also explain to a large extent why ECOWAS's success in reaching important policy decisions has not been effectively followed up with practical implementation in member States. One important decision was the agreement in 1979 on "standstill" on tariff and non-tariff restrictions on intra-ECOWAS trade. Many member States, as previously mentioned, have violated this basic commitment to subregional trade liberalization.

58. Another important decision, also adopted in 1979, concerns the free movement of persons and right of residence and establishment which was to be implemented in three phases over 15 years. There has been real progress in this sphere as, ECOWAS is now in the third phase concerning the right of establishment. Nonetheless, there are still administative problems to be contended with such as the non-application of these rights by immigration officers at borders who are not aware of the requirements of the free movement treaty. In addition, the implementation process has often been undermined by notable exceptions such as border closures when political conflicts arises between two member States. A case in point was the mass expulsion of Sengalese from Mauritania and Mauritanians from Senegal in April 1989.

59. A bright spot in the ECOWAS integration process is its telecommunication programme. This programme was adopted in 1979 for improving telecommunication networks in order to facilitate flow of information within the region. Its implementation is proceeding smoothly and has resulted in telephone and telex links being established in major ECOWAS cities.

60. Several other policy decisions on agriculture development, intra-ECOWAS infrastructure networks (road, rail, maritime, air), and an economic recovery programme containing an investment programme have also being adopted. Their implementation is proceeding, albeit without any spectacular success.

61. Despite these difficulties which have undermined trade, industrial and infrastructural integration in ECOWAS, member States' have remained committed to the objectives of ECOWAS and since 1985 they have adopted some measures to revitalize West African economic integration. Member States have agreed to synchronize, wherever possible, the subregional West African Recovery Programme with national development plans and priorities in order to improve the link between those two sets of policies. The establishment of direct and efficient subregional telecommunication links has been progressing smoothly, as previously mentioned. In addition, the 13th ECOWAS Summit in Banjul (the Gambia) in May 1990 adopted a number of important decisions to strengthen West African integration in the 1990s. These included:

(a) The adoption of a common residence card for ECOWAS citizens. This measure should help consolidate the implementation of Phase II of the Protocol on the free movement of peoples which allows free mobility of citizens within ECOWAS countries without visas;

(b) The decision to launch the ECOWAS trade liberalization programme on 1 January 1990. It concerns trade in industrial products originating in ECOWAS member States (trade in selected unprocessed products and handicrafts was liberalized earlier);

(c) The adoption of measures to create a harmonized West African monetary zone by 1994 and to revive the West African Clearing House. These measures should enhance the implementation of earlier ECOWAS decisions concerning the eventual creation of a common currency and a common central bank.

(d) An agreement to consolidate the rationalization of subregional institutions in West Africa within the framework of ECOWAS. This implies that eventually ECOWAS would be the sole economic community of the West African region and the hub of all regional economic cooperation and integration activities; and

(e) A decision mandating the ECOWAS Secretariat to set up a committee of eminent persons to review the Treaty establishing ECOWAS in line with the objective of instilling new life and dynamism to the ECOWAS integration process.

VII. CONCLUDING REMARKS AND LESSONS

62. Several general observations could be made about the economic integration processes of CACM, ALADI, ASEAN and ECOWAS. Firstly, with the exception of CACM, the record of achievement towards market integration by the four integration groupings surveyed has been at the most modest. These integration groupings have not been able to achieve sufficient progress towards accomplishing their objective of market integration. ALADI has only recently begun to strengthen its preferential trading arrangements. ECOWAS also has only recently begun the process of establishing a free trade area. In ASEAN, the impact of the preferential trading arrangements on ASEAN trade and industry has not been significant. CACM, unlike the other integration groupings, made rapid progress towards the formation of a common market which generated some significant results in terms of trade and industrial expansion; however, internal and external destabilizing factors have practically brought about its collapse and have thwarted the efforts to revive it. The progress towards regional industrial cooperation has also been slow or limited in the integration groupings surveyed, with the exception again of CACM. In ALADI and ECOWAS, regional industrial cooperation is at an elementary stage in the sense that the required policy framework is just being developed. ASEAN regional industrial cooperation has attained some positive results, but practical progress has been slow. In CACM, the integration process did foster substantial industrial expansion in the subregion, though this industrial capacity has been weakened by the decline in intra-regional trade and by the internal armed conflicts in member States.

63. Secondly, the difficulties encountered by the four integration groupings in connection with economic integration per se are somewhat similar. These difficulties are rooted mainly in the design and implementation of their trade, financial and industrial cooperation schemes. The intensity of the problems, however, has varied across the different regions, depending on other external influences. In Latin America the balance-of-payment and external debt crisis suffered by all countries of this region, coupled with political instabilities in Cental America in particular, have eroded their propensity to cooperate, despite well developed economic and trading linkages. In ECOWAS, weak production, transportation and trading linkages between the member countries have limited the prospects for enhanced economic and trade cooperation. In addition, almost immediately after ECOWAS came into existence, the member States were seriously affected by the international economic crisis of the early 1980s. Consequently, as in the case of ALADI, ECOWAS countries devoted their attention towards coping with the crisis at the expense of their subregion economic integration process. ASEAN countries, in contrast to the Latin American and African countries, generally were not affected by the international crisis of the 1980s due to their robust economies. However, the potential for expanded trade within the subregion has not been fully exploited. The impact of ASEAN economic cooperation on subregional industrial and trade expansion has been negligible.

64. Thirdly, the integration process of the four integration groupings experienced periods of booms and slumps closely linked with the international economic climate. During the 1970s when the international economy was growing, the process of economic integration also flourished. CACM and ASEAN reflect this trend. In the crisis period of the 1980s, all four integration groupings suffered serious setbacks. These setbacks were particularly evident in the decline in intra-grouping trade and in the operations of clearing and payments arrangements. This seems to show that member States of integration groupings tend to overlook their commitment to their integration process during periods of crisis instead of joining forces to collectively address such crises.

65. Fourthly, all four integration groupings have seriously attempted to revitalize their integration process on the basis of their past experiences. Most of the integration groupings have not successfully revived their integration process. Nonetheless, their efforts in this direction were augmented significantly towards the end of the 1980s. In some of the integration groupings such as CACM, it is interesting to see that the EEC --a developed country grouping-- is participating and assisting in the revitalization of the process of subregional economic integration.

66. These experiences of the four integration groupings of developing countries provide some interesting lessons which other integration groupings of developing countries, particularly the newly established ones, could benefit from in order to evolve viable economic cooperation and integration efforts.

67. One major lesson is that the process of regional economic cooperation and integration among countries is a long-term process of "learning-by-doing". The process is affected by problems associated with the instruments of integration, by problems associated with socio-economic conditions in member States and by problems associated with changes in the external economic environment. As these parameters are constantly changing, there will be no end to the problems that integration groupings are going to have to confront and overcome. The process of regional economic cooperation, therefore, is supported and evolved over time as the ramifications of the different problems at a certain period of time are confronted and resolved. This also means

that regional economic cooperation (integration) is a long-term process and, hence, attempts at setting time-limits on this process are at best only indicative.

68. A second important consideration is the need to create and strengthen the economic linkages and complementarities within the subregions. In particular, attention should be given to promoting cooperation (integration) in production concomitantly with commercial integration endeavours. Production cooperation in industry, agriculture, energy and food can be effected through joint and other industrial cooperation ventures. A greater involvement of the indigenous business community should be encouraged in developing regional industrial activities. This should lead to the development and diversification of member States' production bases and the creation of opportunities for further trade (and investment) and also support market integration processes over the medium and long term. An increased focus on cooperation in production also implies greater cooperation in investment to facilitate and rationalize investments flows at the national and regional levels. The strengthening of such linkages also depends on the existence of adequate, well-developed communication, transportation, marketing and distribution networks among the member States of integration groupings. Regional economic integration is more likely to stagnate where an enabling environment in terms of physical integration among member countries is not present.

69. Another lesson concerns the elaboration of effective trade liberalization programmes that can significantly enhance trade among member States. Certain features are essential for an effective trade liberalization programme. These include: implementation of "standstill" and "rollback" agreements on trade barriers to regional trade and a significant reduction of custom duties; strong action in reducing non-tariff barriers; simpler fiscal compensatory mechanisms; inclusion of products with trade-creating potential and a limitation on the size of national exclusion lists; and less stringent "rules of origins." In addition, preferential and free trading zones have faced problems of uneven distribution of benefits and costs which have undermined these arrangements. Attention, therefore, should be paid to diffusing such problems.

70. A fourth lesson is the need for the elaboration and application of special measures in favour of the relatively less developed member States of integration groupings. Given that the benefits of economic integration tend to gravitate to the more advanced member States, it is crucial that measures are taken to ensure more equitable distribution of such benefits. In this regard, two of the important elements are the provision of compensatory mechanisms (which are readily applicable) against loss of tariff revenue or production, and preferential industrial measures to develop the productive capacity of these countries.

71. Another important lesson is the need to strengthen the link between national economic development policies and regional economic integration policies. Just as market (and production) integration schemes need to take into account and reconcile interests of member States, these member States also have to give full cognizance to integration priorities and plans when formulating national policies and plans. This is necessary to ensure, *inter alia*, that during periods of crisis member States continue to promote greater cohesiveness in solving their common problems without undermining their commitments to the economic integration process. Such linkages could also help in ensuring regional coordination of economic policies and programmes, especially concerning structural adjustment.

72. It is also clear that multilateral payment and clearing arrangements are useful instruments for supporting trade and economic integration. The functioning of existing clearing arrangements, however, has been constrained by three basic factors: (i) the acute foreign exchange difficulties experienced by many developing countries; (ii) limits on the operations of clearing arrangements posed by the low volume of intra-regional trade channelled through the clearing mechanisms, the exclusion of certain products from the clearing system and an imbalance in intra-regional trade; and (iii) the lack of credit facilities that support clearing arrangements by providing short-term support to countries experiencing temporary liquidity problems, or where they exist, the fact that their operations have been curtailed by the scarcity of financial resources (as in the Santo Domingo Agreement). This means that a strengthening of the multilateral clearing and payments arrangements requires, *inter alia*: the establishment of credit facilities with adequate financial resources in regions where they are currently not available; the channelling of a substantial proportion of subregional trade through clearing arrangements; a wider coverage of goods (and services) allowed into the clearing system; and the adoption of measures to eliminate chronic intra-regional indebtedness which, in the long run, entails supportive measures to develop the productive capacities of chronic debtor countries so that they can also participate in intra-regional trade.